2022 US Private Equity Outlook

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2022 predictions

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Prediction: Mega-funds will raise $250 billion in 2022, including the three largest-ever buyout funds.

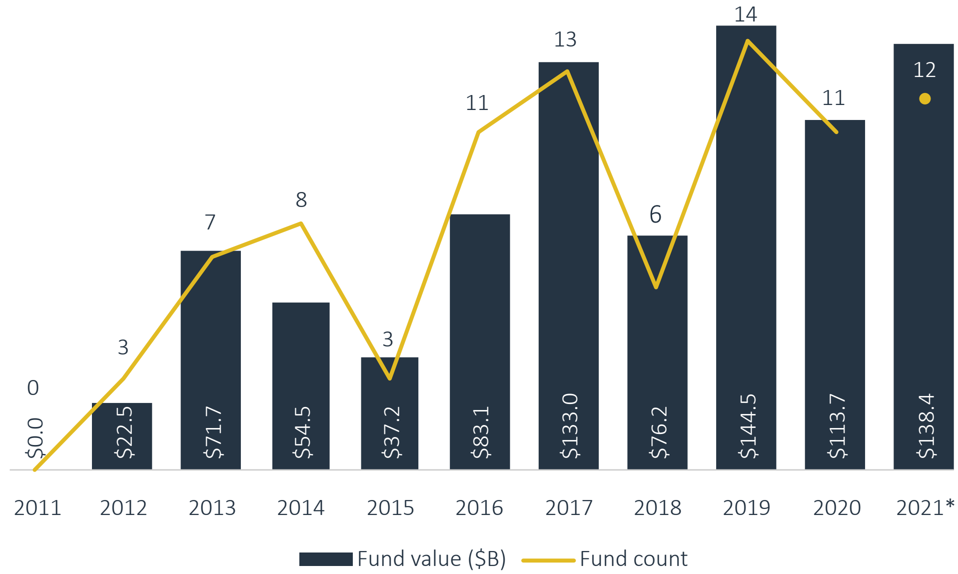
Rationale: As of the end of November, mega-funds, defined as funds larger than $5 billion, accounted for approximately half of all private equity (PE) capital raised in 2021. Just 12 mega-funds raised $138.4 billion in aggregate so far this year, as large GPs sought to aggressively raise and deploy capital into attractive investment opportunities in a record-setting year of deal activity. During 2021, significant revenue growth and an uptick in multiples led to faster investment monetization for many funds, whose distributions were then recycled into new, larger funds. Additionally, many of the largest LPs are increasingly looking to consolidate and deepen relationships with large investment managers to ease portfolio management. This bodes well for the big shops that both manage funds capable of taking in additional capital with ease and house multiple fund strategies under one roof.

With their expected new flagship fund launches, The Carlyle Group (NASDAQ: CG), Apollo Global Management (NYSE: APO), and Blackstone (NYSE: BX) will lead the mega-fundraising activity in 2022, with over $80 billion anticipated between those three firms alone. Apollo's next flagship fund will likely be larger than $25 billion, Carlyle's is expected to be $27 billion, and Blackstone's is likely to seek at least $30 billion, which would set a record as the world's largest PE fund. Other huge players such as Advent International, Warburg Pincus, and Thoma Bravo are setting similarly stunning targets for their next funds, which will catapult mega-funds to a record-breaking fundraising year.

Caveat: The market is at risk from continued volatility from COVID-19, which could cause GPs to delay their fund launches as their existing funds and portfolio companies struggle and market downturn decreases capital availability and investor appetite. Not wanting to lock up additional capital in private investments, LPs could take a more defensive approach in their investments. A bear market in public equity markets could lead to the denominator effect,[1] thus pushing buyouts above internal limits. On the other hand, in a bull PE market, LPs could also reach an internal allocation limit from outstanding reported returns and become unable to provide the additional capital for which GPs are asking.

1: The denominator effect is when a private equity portfolio value exceeds its target allocation due to the decline in value of other asset classes in the investment portfolio.

PE mega-fundraising activity



Source: PitchBook | **Geography:** US
*As of November 30, 2021

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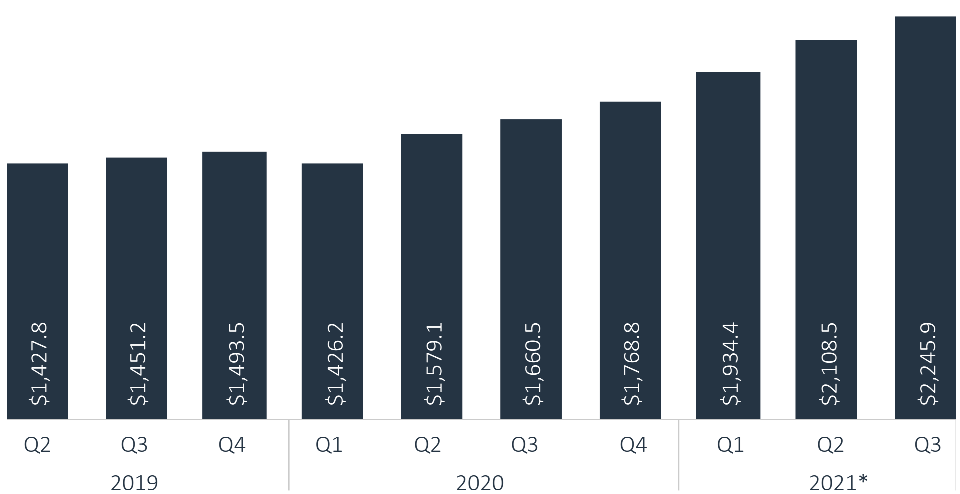
Prediction: The big five US public alternatives managers' AUMs will eclipse $3 trillion in 2022.

Rationale: At the end of Q3 2021, the big five public alternatives managers—Blackstone, KKR (NYSE: KKR), Apollo, Carlyle, and Ares (NYSE: ARES)—managed nearly $2.25 trillion combined. These behemoths are continuing to scale by expanding existing product lines and launching new ones. There is a constant demand to deliver outperformance to equity holders by scaling management fees and revenues, all of which starts with higher AUM figures. This prediction requires an acceleration of growth by the largest managers. Over the past two years, these managers have grown AUM by approximately 5.6% per quarter. In order to hit $3 trillion by year-end 2022, they will have to lift AUM by just under 6% per quarter.

A combination of events is required for this to occur. Continuation funds—which offer LPs liquidity earlier in a fund's lifecycle but keep the assets under the manager's tutelage—offer one path. A heavier usage of continuation vehicles may extend holding times and increase AUM. Flagship fundraising for Blackstone, Apollo, and Carlyle is also set to significantly boost AUM figures—likely over $80 billion between those three funds alone. Finally, doubling down on fundraising from insurance companies and the mass affluent will allow these mega GPs to accelerate their fundraising efforts.

Caveat: This prediction is predicated on everything going right, and a lot could go wrong. Much of the growth in AUM in 2021 came from insurance M&A transactions. KKR alone added over $100 billion in AUM after acquiring Global Atlantic in mid-2021. These blocks could be absent for several reasons in 2022 and thus dry up a critical source of growth. LPs may also be reaching the top of their allocation ranges, thereby limiting the amount of capital they can pour into these GPs' strategies. On the flip side, an economic downturn or a lack of liquidity may also hamper LPs' ability to swell their private markets allocations.

Combined AUM ($M) for the five largest public US private capital managers



Source: Public filings | *As of September 30, 2021

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Prediction: Seeding firms will close at least six funds to back emerging managers.

Rationale: First pioneered in the hedge fund world, seeding has grown increasingly prevalent in the closed-end private capital sphere as a way for managers raising their first institutional funds to secure the all-important first-close capital. In exchange for a sizeable first-close commitment and working capital, the seeding LP receives an equity stake or revenue share of around 20% at the GP or fund level that typically sunsets after about the first three funds.

As the PE industry has matured, a wave of experienced professionals with niche expertise or differentiated insight is looking to raise capital. However, raising a first-time fund is notoriously difficult because many LPs are unwilling to be the first to allocate to a fund from an untested manager. Although the overall PE fundraising climate is benign, it heavily favors established players as LPs are looking to increase their PE allocations while also consolidating manager relationships. As a result, demand for seed capital is growing among first-time fundraisers, and the stigma around giving up firm- or fund-level economics early on is waning. In addition to the large pensions and funds of funds that undertake seed deals, several firms have stepped up to meet this demand by raising dedicated seeding funds or by providing seed capital off their balance sheets. Currently, at least four seeding funds are open: Gatewood Capital Partners and Stable Asset Management are both raising second funds, while Grafine Partners, a new firm, and Azimut Alternative Capital Partners, which has previously seeded off its balance sheet, are raising first funds. We also know of two additional seeding firms working toward Fund I launches.

Caveat: Because seeding is still a nascent strategy in PE, current and potential LPs in seeding funds are watching carefully to evaluate the success—in terms of both subsequent fundraising and performance—of the first wave of PE seed fund investments. Some clear success stories are already emerging, including MiddleGround Capital, which was seeded by Archean Capital Partners and raised over $1 billion across several funds—including its second flagship—in May 2021, and Arctos Sports Partners, which was seeded by Petershill and recently closed on just over $3 billion for its first fund and co-investment vehicles. But if LPs deem these are the exception rather than the rule, they may eschew seeding funds in favor of making commitments themselves—especially with a steady stream of high-profile spinouts, which typically do not require seeds, entering the fundraising market.

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Prediction: More private capital managers will go public in 2022 than during any previous year.

Rationale: Since the years surrounding the global financial crisis (GFC), there has never been a better time for alternative asset managers to go public. After EQT's (STO: EQT) public offering was favorably received by public markets in late 2019, the floodgates opened. In 2021 alone, Petershill Partners (LON: PHLL), Bridgepoint (LON: BPT), Antin Infrastructure (PAR: ANTIN), and Blue Owl (NYSE: OWL) have also gone public. Heading into 2022, TPG has already filed to go public; CVC, L Catterton, and Ardian are reportedly considering going public, and 2022 seems to be the target year. We have identified another 50 GPs around the world that we believe have the scale to go public.

Several factors are leading to lucrative valuations for these alternatives managers. Public market investors are finally understanding the enduring brand value and duration of capital with firms such as Blackstone and KKR. These businesses produce semi-predictable cash flows and are quite resilient. Expanding into more fee-heavy investments and diversifying their investor pools to lean more on retail and insurance only serves to strengthen the long-term prospects.

Caveat: Going public is a one-way street, and so far, most managers have preferred to self-fund or sell a GP stake. Firms including Dyal, Petershill, and Blackstone have the financial firepower to present viable alternatives to an IPO—or to at least delay a public listing. For example, rather than go public, CVC sold a minority stake to Dyal. This capital appears to have gone toward CVC's purchase of secondaries manager Glendower Capital, though CVC seems to be preparing to go public in 2022. Several other managers have also gone this route. Additionally, any pressure on multiples, as seen more recently with KKR and Carlyle, may dissuade others from jumping into public markets. Finally, few—if any—other managers have the scale of the current crop of public managers, so they may opt to publicly list at a later date.

Select alternative asset manager IPOs

Company	IPO date
P10 Inc. (NYSE: PX)	October 21, 2021
Petershill Partners (LON: PHLL)	September 28, 2021
Antin Infrastructure Partners (PAR: ANTIN)	September 24, 2021
Bridgepoint Advisers (LON: BPT)	July 21, 2021
Blue Owl Capital (NYSE: OWL)	May 20, 2021
StepStone Group (NASDAQ: STEP)	September 16, 2020
EQT (STO: EQT)	September 24, 2019
Hamilton Lane (NASDAQ: HLNE)	March 1, 2017
Ares Management (NYSE: ARES)	May 2, 2014
The Carlyle Group (NASDAQ: CG)	May 3, 2012
Oaktree Capital Management	April 11, 2012
Apollo Global Management (NYSE: APO)	March 30, 2011
Kohlberg Kravis Roberts (NYSE: KKR)	July 15, 2010
Blackstone (NYSE: BX)	June 22, 2007

Source: PitchBook | **Geography:** US

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Prediction: At least 30 GP stakes deals will close, thereby setting a record.

Rationale: Many GPs view the current Goldilocks environment as the perfect time to strategically invest, and balance-sheet capital has never been more important. This capital is no longer just for the biggest firms. Ambitious middle-market firms are pursuing growth capital in unprecedented ways. Whether via organic or inorganic means, many middle-market firms are seeking to go from mono-line managers to platforms—often with a sector-focused or niche investment strategy. The GP commitment has also become more important, with LPs preferring a 5%+ GP commitment to the typical 2% to 3%. Whether because of continuation funds or significant step-ups early in a firm's lifecycle, this commitment can be unaffordable for many, thus making a GP stake round an option. Finally, having a partner to help navigate the constantly evolving and opaque private market landscape makes selling a GP stake attractive for many.

On the supply side, a new batch of middle-market-focused GP stakes managers has emerged to finance these needs. With managers including Bonaccord and Investcorp hitting their strides in 2021, and others including Hunter Point proving their staying power, there are more established and well-financed GP stakes firms than ever before. Petershill's public offering, Blackstone's Q4 2021 final close on its second GP stakes fund, and Dyal's gigantic open fund mean the largest firms also have plenty of dry powder to deploy in the coming years.

Caveat: GPs have more financing options than ever, and the demand for these deals may subside. With the sky-high valuations many GPs are achieving in public markets, many of the larger firms that could sell a GP stake may opt to tap public markets instead. GPs could choose a preferred equity sale or debt financing if they are looking to raise nondilutive capital. Demand for deals could also diminish in 2022. Many founders chose to sell minority stakes in 2021 due to fears around a rising capital gains tax, thereby effectively drawing demand forward and potentially leading to fewer deals in the coming years.

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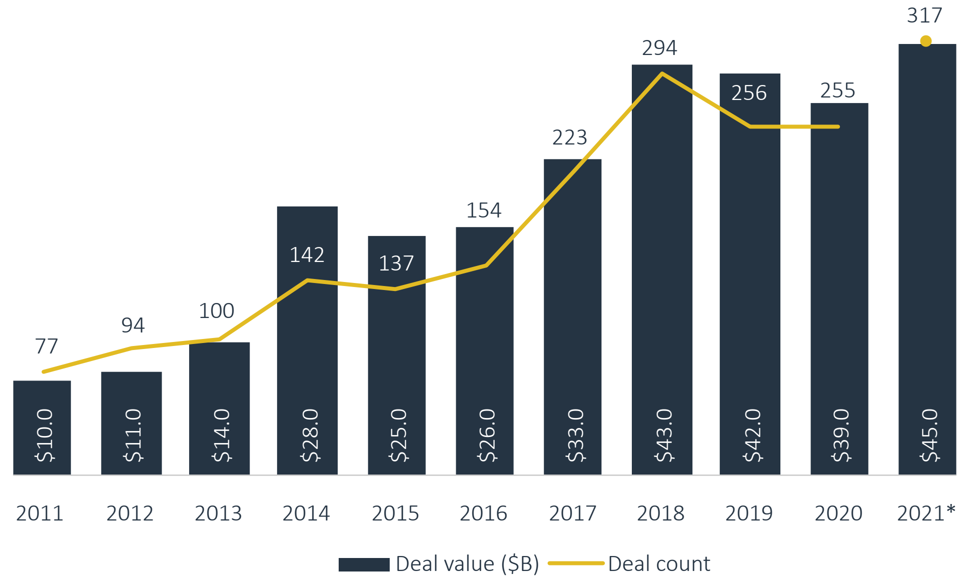
Prediction: PE firms will close at least 400 middle-market software deals.

Rationale: Software deals in the middle market have steadily increased over the last several years, reaching an annual record of 317 deals for an aggregate of $45.0 billion by the end of November 2021. With middle-market companies recognizing the need for digitalization to improve metrics, optimize business processes, and enable integration across organizations, pandemic-accelerated trends such as e-commerce and remote work will further increase the pursuit of added technological capabilities. The middle market faces multiple avenues for software deals: from investors seeking midsized companies ready for growth, to nontech companies needing information technology (IT) acquisitions to boost their own digitalization strategies, to large PE buyouts shopping for add-ons in their large software platform builds.

Within middle-market software, a few subsectors are rife for increased deal activity. Companies that provide much-needed data integration and multi-channel services—and cloud-based software in particular—are receiving increased attention. For the middle market, cloud systems are an effective way to integrate data silos with lower costs than on-site systems that could need additional hardware or internal IT maintenance efforts. Financial software also has opportunities for consolidation, as small businesses are investing more into finance and accounting and stand to gain considerably from modern and efficient functionality, analytics, and automation.

Caveat: It remains to be seen how new software deals in the middle market will fare. Deal activity overall could fall due to difficulties stemming from ongoing COVID-19 market disruptions. Diminishing tech multiples in public markets could also initiate lower deal activity. If the current streak of high tech multiples continues, the valuations of successful midsized private companies could surge and shoot software deals above $1 billion, which would no longer classify them as part of the middle market. Additionally, huge IT platforms could also roll out cheaper, simpler functionality accounts to smaller customers, thus preventing midsized software companies from gaining market share.

Software middle market PE deal activity



Source: PitchBook | **Geography:** US
*As of November 30, 2021

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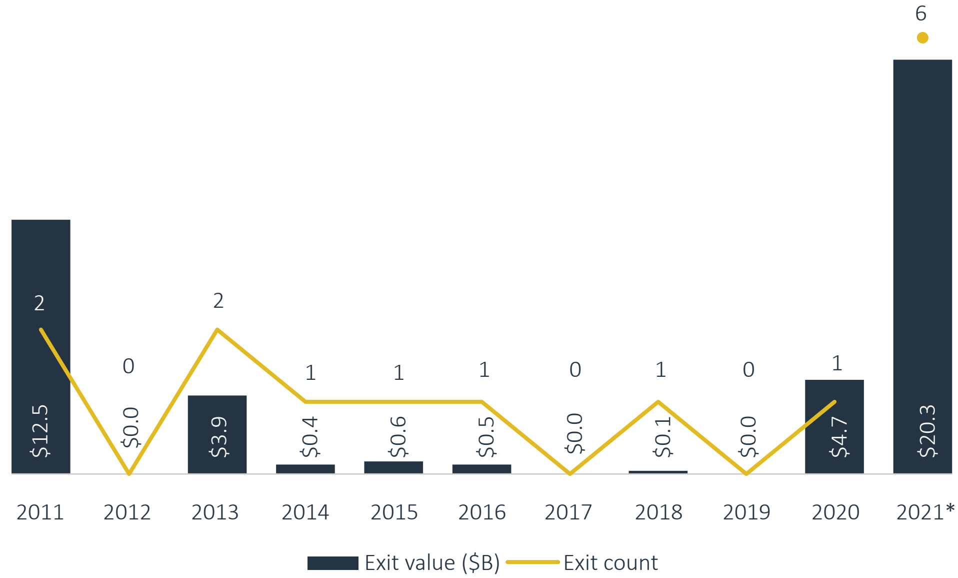
Prediction: At least 10 US PE-backed healthcare provider platforms will list publicly, breaking 2021's record.

Rationale: 2021 was a record-breaking year for PE-backed healthcare provider IPOs, and the convergence of several secular trends suggests there is more to come. First, PE firms are pursuing public listings for their portfolio companies at a historic pace across sectors. Second, the healthcare provider industry is undergoing widespread transformations on several fronts, thus making vanguard companies attractive to public investors. The value-based care (VBC) reimbursement model, in which providers are reimbursed based on patient outcomes rather than on the volume of services provided, is being adopted by primary care providers, hospitals, and some specialists, and has bipartisan political support. Two PE-backed VBC providers listed publicly in 2021: Privia Health (NASDAQ: PRVA) and Agilon Health (NYSE: AGL). We expect to see more VBC provider IPOs in 2022. Another important theme is the consumerization of healthcare, in which healthcare providers are using technology to provide more convenient and patient-centric experiences—particularly in primary care. Everside Health, a New Enterprise Associates-backed primary care platform, has already filed to go public.

Other red-hot provider segments that may see PE-backed IPO activity include home care, aesthetic dermatology, behavioral health, and veterinary medicine. We are also watching the largest consolidators in mature segments such as dental, where IPOs could provide terminal exit opportunities for platforms that have grown into nationally dominant players through multiple turns of PE ownership. For instance, Aspen Dental Management, which underwent its first buyout in 1997 and is currently owned by American Securities, Leonard Green Partners, and Ares, has recently diversified into urgent care, aesthetic dermatology, and direct-to-consumer invisible alignment orthodontics—all of which have been successful themes in public markets in recent years.

Caveat: If the current bull run in public markets ends—perhaps due to a hawkish shift in Federal Reserve policy—firms may opt to exit via sales to other sponsors or strategics. Sponsor-to-sponsor buyouts are attractive for healthcare provider platforms because they offer easier transaction processes, and firms are typically willing to pay for EBITDA from not-yet-integrated or even pipeline add-ons. And strategics—including payers and hospitals—are also looking to stay abreast of the industry's evolution and may thus be willing buyers. Additionally, some of the most promising healthcare provider consolidation plays—including vision—are still relatively immature, with most platforms likely to continue for another turn or two under PE ownership before reaching the appropriate scale for a public exit.

PE-backed healthcare provider public listing activity



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2021 scorecard

PE fundraising will surpass $330 billion, setting an all-time high.	Fail	While it is still too early to call, fundraising numbers through mid-December indicate this prediction will fall short. Although fundraising has already surpassed 2020's total, it has not eclipsed the $330 billion we pegged. However, with the flurry of funds either launching or in market, fundraising in 2022 and 2023 is poised to breeze past all prior records.
20% of buyouts will be priced above 20x EBITDA.	Pass	Multiples remained aloft in 2021, with buyouts in fast-growing sectors including technology and healthcare accounting for a substantial proportion of overall deal activity. By our count, just over one fourth of buyouts were completed at EV/EBITDA multiples of 20x+.
At least 20 PE-backed companies will enter US public markets through a reverse merger with a SPAC.	Pass	Through the end of November, 33 PE-backed companies had gone public via a reverse merger with a SPAC. As predicted, many GPs chose to utilize SPACs for liquidity in certain instances. A fair number of SPACs are still seeking targets, so this number may rise again next year, but the SPAC IPO craze appears to have diminished into the back half of 2021.
There will be at least one new type of exit from a GP stakes portfolio in 2021.	Pass	Goldman Sachs' Petershill listed two of its funds as a combined entity named Petershill Partners on the London Stock Exchange. This unprecedented exit proves out another liquidity option for GP stakes investments. We expect even more liquidity solutions will be tried in the coming years.
Carveout deal value will hit the highest level on record.	Pass	Carveout deal activity hit an all-time high in 2021. While many companies did seek to slim down operations, it was not the theme we had predicted. In fact, M&A boomed, and this prediction likely came true only due to the healthy dealmaking activity in the system.
First-time fundraising in the US will be the strongest since the GFC.	Pass	First-time fundraising boomed in 2021. Many funds that hoped for a 2020 close had to push back until 2021, while other teams spun out from established mega-managers and found success. A growing number of options for first-time managers means this success may continue into 2022.